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TESCO

innovations en technologie de forage innovation en der bohrtechnik 革新鑽井技術 inovace v technologii vrtání
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novaciones en la tecnología de perforaciones **innovations in drilling technology** 착암 기술의 혁신
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ови технологии на сонлиране เทคโนโลยีการขุดเจาะในรูปแบบใหม่ inovacije u tehnologiji naftnih bušenja

TESCO CORPORATION
2001 ANNUAL REPORT

TESCO CORPORATION is a global leader in the design, manufacture and service of technology based solutions for the upstream energy industry. The Corporation's mandate is to change the way people drill wells by delivering safer and more efficient solutions that add real value by reducing the costs of drilling for and producing oil and gas. With a history of technical innovation and superior customer service, Tesco continues to set new standards.

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Algeria

Argentina

Australia

Bosnia

Bulgaria

Canada

China

Colombia

Croatia

Czech Republic

Denmark

Ecuador

Finland

France

Germany

Greece

Hungary

India

Indonesia

Iran

Italy

Japan

Kazakhstan

Korea

Mexico

New Zealand

Norway

Peru

Poland

Portugal

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Spain

Sweden

Thailand

Turkey

Ukraine

United Arab Emirates

United Kingdom

USA

Venezuela

Vietnam

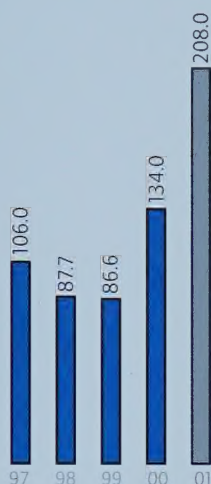
Annual Meeting

The Annual General Meeting of the Shareholders will be held on Thursday, May 16, 2002 at 10:00 a.m., in the Heritage Room of The Blackfoot Inn, 5940 Blackfoot Trail S.E., Calgary, Alberta, Canada.

Tesco Corporation is listed on the Toronto Stock Exchange under the symbol "TEO" and on the NASDAQ System under the symbol "TESOF".

"2001 WAS AN OUTSTANDING YEAR FOR TESCO..."

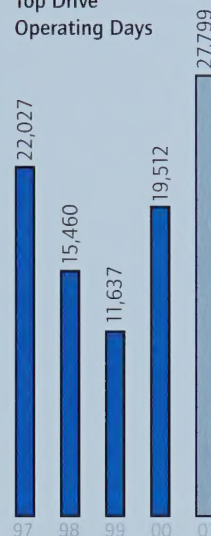
Revenue (\$Cdn million)



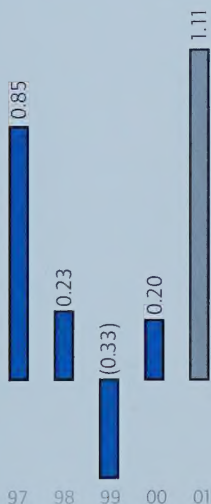
We achieved record revenues of \$208 million...

...principally by booking more top drive service days and system sales than during any other single year in our history...

Top Drive Operating Days



Earnings per share (\$)



...We made substantial progress in successfully commercializing our innovative Casing Drilling™ Technology."



■ Share price – high/low
— Trading volume

"Our shareholders have had a rocky ride over the past year. For those who have stayed with us, and for those new shareholders who share our vision, we are grateful and thank you for your belief in us."



President's Message

2001 was an outstanding year for Tesco. We achieved record revenues of \$208 million, principally by booking more top drive service days and system sales than during any other single year in our history. We made substantial progress in successfully commercializing our innovative Casing Drilling™ technology, and we continued to focus our Corporation on the successful development of new markets through the deployment of innovative products and processes.

Casing Drilling

In the second quarter of 2001, to address the fact that Casing Drilling™ was becoming a commercial business, we took two important organizational steps. First, we formed a Casing Drilling Deployment Team. Chaired by myself, the team has representation from all segments of the Corporation. Its members vet all Casing Drilling™ opportunities and ensure that every issue, whether technical, operational or marketing, is fully addressed. Second, we formed a Casing Drilling™ Service Department. Headquartered in Houston, this group of drilling personnel is charged with the responsibility of conducting worldwide Casing Drilling™ operations. Through these two initiatives, we have been able to improve the flow of information between our operating and research divisions, accelerating both downhole tool development and improvement in operating efficiency.

"We focused our Corporation on the successful development of new markets through the deployment of innovative products and processes."

Casing Drilling™ continues to gain momentum as we improve the drilling process and broaden the range of tools we have to offer. With the signing of our first long term Casing Drilling™ contract with Conoco in February of 2002, we consider the product line, as we originally envisaged it, to have taken a further significant step toward full commercialization. A comprehensive review of the development and current status of the Casing Drilling™ program is included elsewhere in this Annual Report.

I am also pleased with the opportunity we have to develop an unexpected niche market running casing with tools developed as part of the Casing Drilling™ initiative. This was not a market we had specifically targeted; rather it was identified by customer demand. As a result of unsolicited requests from customers, we performed two casing running jobs over the first three months of 2002. We will be launching a dedicated business development campaign during 2002, and expect to create a significant casing running service segment by the end of this fiscal year.

Corporate Changes in 2001

Having reached commercialization with Casing Drilling™, we are now positioned for significant growth. In order to prepare for this growth, we took certain steps during the past year to sharpen our focus and ensure our ability to maximize return to our shareholders. Our first step was to define our key strengths. We determined that Tesco is, in essence, three things:

A Drilling Innovation Company™: We distinguish ourselves from our peers and competitors by the fact that we challenge the fundamentals of the drilling process. We specialize in the drilling industry, and our skills, experience and knowledge are dedicated to optimizing the process of drilling, or "making hole." Our goal is to make drilling a more efficient process. We develop products and processes that shorten time on the hole, eliminate unscheduled events and reduce hazards to personnel.

An Oilfield Service Company: In the best tradition of oilfield service, our operating staff deliver a high degree of customer satisfaction in all of our service, sales and support operations.

A Manufacturing Company: Although it may seem to state the obvious, this represents a strategic observation at a critical moment in Tesco's evolution.

Having identified our key corporate strengths, we made certain changes that would permit us to concentrate on those elements. Accordingly, during 2001 we sold businesses that did not fit the picture. The Corporation had made a substantial investment in developing

"Having reached commercialization with Casing Drilling™, we are now positioned for significant growth."

technology and equipment for underbalanced drilling. Although we experienced some initial marketing success, we ultimately concluded that it was a non-

strategic business for the Corporation. We sold the assets at a time that coincided well with our buyer's growing interest in this service line. Consolidation in the completions industry provided us with a second opportunity to divest ourselves of Tesco Completions, another non-strategic business. This was a difficult decision, as Gris Gun, the core of these operations, had been with us from the beginning. I am pleased to report that we were able to exit both of these businesses profitably. The cash raised from these sales – approximately \$70 million – provides us with the financial strength to pursue our growth strategy, even within a softening drilling services market.

Having determined to streamline our Corporation's businesses, we next reviewed our organizational structure. We identified two essential corporate activities and realigned our structure to reflect this reality. The first is the development and introduction of new products and processes. It reflects our corporate origins as a drilling technology company. Consisting of two disciplines, Engineering and Design and New Product and Process Development, this part of the Corporation designs, develops and ensures the operating viability of new products and processes. It is essentially an expanded Research and Development department with considerably more emphasis on Development. Our second major activity is Operations. Under the leadership of the Chief Operating Officer, this segment of our Corporation now consists of manufacturing, services, product sales and after-sales service. Here fully developed Tesco technologies enter the mix of equipment and services that we offer.

We also completed a critical review of the state of our facilities, specifically our manufacturing operation. We realized that with the increasing tool and equipment requirements for Casing Drilling™, as well as the ongoing top drive construction schedule, our manufacturing capability would soon become a limiting factor. To be in a position to take full advantage of our planned growth, one of the most important things we have to do is ensure that we maintain manufacturing capacity in order to control product quality. In the fall of 2001, we commissioned an external study that quantified the benefits of a dedicated facility. Based on that study, we have commenced what we expect will be a two year project to build a facility that will house all of our Calgary based operations, including our Corporate Office, Engineering & Design, New Product and Process Development, Canadian Operations and Manufacturing. The largest single occupant will be our manufacturing group.

During 2001, we also substantially strengthened our financial position. At year-end, working capital totaled \$202.1 million, including \$134.6 million in cash and cash equivalents, while long-term debt was just \$70.2 million. We believe that this strong and liquid position will provide considerable flexibility in executing our Casing Drilling™ capital investment program.

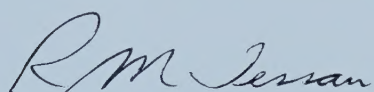
Outlook

With a new look and a renewed vision 2002 promises to be a very exciting year at Tesco. As we carry out our first major onshore Casing Drilling™ contract, we look forward to important commercial growth in this product line. We will be taking a significant step into the casing running business, introducing our proprietary and innovative technologies into this established service market. Although we remain alert to external economic influences and are prepared to respond to the effects of this current period of uncertainty in our industry, we will continue to execute our strategy of growth in technologies that make us the Drilling Innovation Company™.

Our opportunities in Casing Drilling™ build on the strength of Tesco's underlying top drive business. Although we expect that 2002 will be a difficult year for the oil and gas industry and, in turn, the oil service and supply sector, our top drive business continues to deliver solid results and generate strong cash flow. It is an attractive stand alone business with outstanding growth opportunities in both the land rig market and, with our large electric top drives, in the replacement market offshore.

It has become traditional for me to thank our employees for their dedication and effort over the reporting year. I want each employee who reads this report to know that although the message is repeated, it does not detract from its sincerity. You have truly had an exceptional year, and I thank you for work well done.

Our shareholders have had a rocky ride over the past year. For those who have stayed with us, and for those new shareholders who share our vision, we are grateful and thank you for your belief in us. Organizationally, financially and technologically we are ready to take Tesco to the next stage in its development. I believe we can all look forward to a very successful and rewarding future in 2002 and beyond.



Bob Tessari
President and Chief Executive Officer

March 13, 2002



Review of Operations

What is Casing Drilling™? Tesco's patented Casing Drilling™ process is a revolutionary technology that permits operators to simultaneously drill, case, and evaluate oil and gas wells. Wells are drilled using standard oilfield casing instead of drill pipe. Drill bits and other downhole tools are conveyed (or tripped) through the casing with wireline and the casing can be reciprocated and circulated throughout the entire tripping process. Bit trip times are thereby dramatically reduced.

The well can be logged using conventional logging while drilling (LWD) tools. Alternatively, the casing can be raised and wireline logs run over the zone of interest. Casing Drilling™ can also be combined with directional drilling tools. Casing Drilling™ saves time, reduces operating risk, lowers drilling costs and eliminates many of the downhole problems associated with conventional drilling.

Tesco has developed and, where possible, patented specialized Casing Drilling™ tools and equipment. We have also built a low cost, highly efficient rig specifically for Casing Drilling™; however, almost any drilling rig can be adapted to use the technology.

ADVANTAGES OF CASING DRILLING™

The advantages of Casing Drilling™ fall into three areas: time saving, elimination of unscheduled events and improved rig efficiency.

Time Saving

The principal time savings with Casing Drilling™ result from not having to pick-up, trip and lay down a drill string (drill pipe and collars). Using the conventional drilling process, drilling tools are conveyed into and out of the wellbore on the end of drill pipe. Using the Casing Drilling™ process, drilling tools are conveyed into and out of the wellbore on wireline run through the inside of the casing. Not only is this process many times faster, but the tools are conveyed through a smooth bore, isolated from the obstacles present in the open hole.

Elimination of Unscheduled Events

Lost circulation, loss of well control and borehole instability problems have been documented to account for as much as 25% of total rig time on the hole. Sometimes they even result in loss of the well. Early results indicate that Casing Drilling™ eliminates as much as 40% of the time previously spent dealing with unscheduled events.

Swelling Formations: Conventional drilling requires that the drill bit be pulled up through a wellbore, sections of which may have swelled due to absorption of drilling fluids. Because its gauge is significantly larger than the diameter of the drill pipe, the bit must often be “reamed” out of the hole and may get stuck in the process. The collapsible Casing Drilling™ bit is pulled through the inner bore of the casing string, isolated from this exposure.

Sloughing Formations: Sections of the borehole can fall in or “slough” often causing the drill pipe to become stuck. The hole is especially vulnerable when circulation is halted while tripping out the drill pipe to change bits or run casing. In open hole, sloughing formations can form bridges that must be drilled through when the pipe is run back into the hole. With Casing Drilling™, circulation is maintained while wireline tripping the conveyance assembly. The hole is thereby constantly conditioned to maintain stability.

Washouts: Washouts, hole enlargements formed in unconsolidated or soluble sections of the hole, can make it difficult to re-enter the wellbore. This problem occurs more frequently and is more severe in directional wells. The result can be especially costly when unintentional sidetracks or “ghost holes” form and require the well to be plugged back and re-drilled. With Casing Drilling™ the pipe is never removed from the hole and therefore the problem never arises.

Swabbing: Tripping can inadvertently cause the well to “swab” (the drill pipe acts like a pump, creating a vacuum below as it is pulled up the hole) creating a risk of uncontrolled flow of oil and gas. The risk is especially high when hoisting a full gauge bit through a tight and permeable zone. Approximately 70% of all kicks occur while tripping out of the hole. With Casing Drilling™, eliminating the trip eliminates the risk.

Hole in the Casing or Key Seats: Rotating a drill string inside previously set surface and intermediate casing strings sometimes wears a hole in the casing, especially when hard banded tool joints are used. Rotating and tripping drill pipe through deviated open hole sections may result in the formation of key seats (a groove worn by the drill pipe on the lower part of the curving borehole). With Casing Drilling™ less string vibration and closer tolerance between string diameters combine to reduce wear of the set casing. Key seats do not cause problems because the bit need not be retrieved through them.

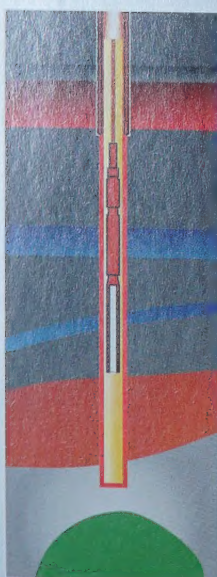
Running Logs and Casing: It may be impossible to run a log across a zone of interest in an unstable or highly deviated wellbore. Casing Drilling™ results in greatly improved wellbore conditions.

Rig Efficiencies

Substantial savings are realized by not having to purchase, transport, and maintain drill pipe and drill collars. The rig mast no longer has to be a double or triple as only single joints of casing are handled at a time. The rig floor setback required to provide space for standing up many lengths of drill pipe is eliminated. The rig weighs much less and requires fewer truckloads to move between locations.

With this process, casing need not be tripped out of the hole, lowering the rig's horsepower requirement. The inside diameter of casing is much larger than drill pipe and the annulus (the space between the outside wall of the casing and the wellbore) is much smaller. As a result mud is circulated at lower rates and pressures improving mud pump efficiency. In addition, Casing Drilling™ field trials have shown that the torque required to rotate a casing drill string is lower than that required for a conventional drill string. All of these advantages result in lower fuel and maintenance costs on a smaller and less capital-intensive rig.

History of Drilling

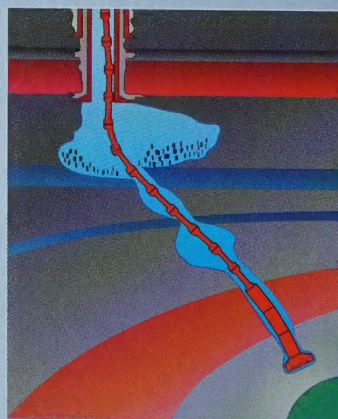


Cable Tool Process

1850 – 1930

Batch Process

- slow rock destroying
- slow hole cleaning
- fast tripping

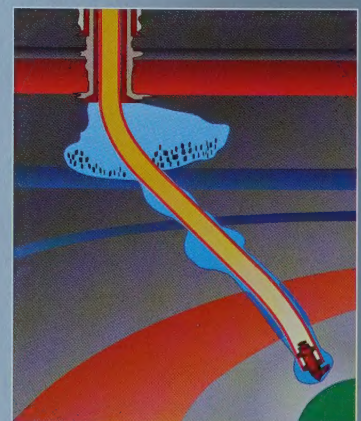


Conventional Drilling Process

1901 – Today

1909 – Howard Hughes invented Rotary Rock Bit

- fast rock destroying
- fast hole cleaning
- slow tripping



Casing Drilling™ Process

1998 – Future

Tesco Patent 1995

- fast rock destroying
- fast hole cleaning
- fast tripping

Chronology of Progress To Date

- 1995–1998 Tesco formed the Casing Drilling™ Joint Venture and acquired patent rights to the Casing Drilling™ process. The Joint Venture developed a prototype rig and the first generation of downhole Casing Drilling™ tools.
-
- 1998 Tesco purchased the interests of all other joint venture partners.
-
- 1999 Tesco conducted ten field trials in Canada and the United States establishing the viability of Casing Drilling™. The first US well was drilled on a turnkey basis in very difficult geology. The Corporation signed a Preferred Supplier Agreement with Schlumberger.
-
- 2000 Tesco experienced initial success in Canada and the United States with 4 1/2", 7" and 9 5/8" Casing Drilling™ tools. Tesco successfully performed the first Casing Drilling™ job on a jack-up rig in Gulf of Mexico.
-
- 2001 The Corporation drilled 15 wells for BP in Wyoming, during which time it:
- designed new generation 5 1/2" tools.
 - designed new generation 13 3/8" tools for use in offshore applications.
- Tesco drilled 8 wells for Conoco in the Lobo, South Texas field.
-
- 2002 Tesco signed its first major commercial contract, a two year Casing Drilling™ project with Conoco.
-

MARKETS FOR TESCO'S CASING DRILLING™ TECHNOLOGIES

Drilling Contracting Services

During the Casing Drilling™ development period, Tesco designed and built Casing Drilling™ enabled rigs with a split crown block, split traveling block, wireline winch and wireline BOP. These rigs are also configured to optimize mobility. We built a total of nine rigs, eight of which were sold to Drillers Technology Corporation. Our recent drilling contract with Conoco requires us to build and drill with three purpose-built Casing Drilling™ rigs. We will continue to build and operate Casing Drilling™ rigs for specific projects on a case by case basis. However, as Casing Drilling™ technology gains acceptance, we will concentrate on providing services with our conveyance system and specialized downhole tools.

Conversion of Existing Rigs

The cost of adapting an existing rig to be Casing Drilling™ enabled is relatively modest (\$500,000-700,000) and Tesco will provide the required expertise to drilling contractors. Since the Casing Drilling™ process requires the use of a top drive; we anticipate this service will precipitate additional top drive sales and rentals.

Casing Drilling™ Services

Tesco believes there is an important market for Casing Drilling™ services using existing drilling rigs, particularly in the offshore market with its high daily operating cost. To this market Tesco will provide the Casing Drilling™ downhole tools, the wireline retrieval system, the top drive and supervision.

Consumable Supplies

The Casing Drilling™ process consumes certain tools and other items designed, manufactured and sold by Tesco. These include the underreamer cutting structure, casing shoes, casing profile nipple, crimp-on wear stabilizers, casing connection torque rings and specialized cementing equipment.

NEW BUSINESS OPPORTUNITIES

Casing Assist Running System (CARSTM)

The Casing Assist Running System (CARSTM) is a new Tesco business opportunity which takes advantage of tools developed for the Casing Drilling™ process. Replacing power tongs, fill up tools and other conventional equipment, CARSTM permits the operator to ream or drill casing into the hole. Consisting of both rental equipment (casing drive assembly and top drive), and consumable products (torque rings, rotating centralizers, wear bands and a running shoe), Tesco plans to commercialize this system in 2002.

Continuous Coring with Casing

This specialized use of Casing Drilling™ related equipment has application for coal bed methane and heavy oil wells. Our wireline retrievable tools will permit rapid core retrieval, a substantial advantage where data quality depends on measuring the core as soon as possible after cutting. We will also be able to cut and retrieve larger cores than available using conventional techniques.

Current Projects

On February 11, 2002, Tesco announced a two-year drilling contract with Conoco Inc. for the Lobo field in South Texas. Tesco will construct three purpose-built Casing Drilling™ rigs at its Calgary facility. The estimated capital expenditure is approximately US\$13 million. The first rig will commence drilling in September 2002 with the second and third rigs mobilized by the end of the year. Total project revenues including consumable supplies are estimated to be US\$30 million.

On February 18, 2002, Tesco announced the signing of a contract to drill six water wells in Algeria for a local drilling contractor. Wells drilled in this area have experienced severe lost circulation problems and attendant drilling time delays. We expect that Casing Drilling™, in conjunction with use of a Tesco top drive, will significantly reduce hole problems and decrease overall drilling time.

The number and range of inquiries we are receiving since these announcements makes us confident that our Casing Drilling™ businesses are poised for significant near and long-term opportunities.

SERVICES DIVISION

Headquartered in Houston, Texas, Tesco's Services Division is organized into six regional Business Units: Canada; the United States; Mexico; South America; Europe, Africa and Middle East; and Asia Pacific. Approximately 85% of the Division's revenues are generated in North and South America.

Top Drive

The Division's principal product line, portable top drives, had a stellar year in 2001, setting a single year record of 27,799 operating days compared to 19,512 operating days in 2000. Of these, 15,897 operating days were booked in North America with 11,902 days in the remaining business units. During 2001, 17 units, principally 460 hp hydraulic units with integrated swivels (HMIS), were added to the fleet of portable top drives, making a year-end fleet total of 133 top drives. The additions also included a 900 hp Electric Compact Integrated (ECI) unit that was deployed in the US; this is the first time Tesco has made one of its electric top drives available to customers through the Services Division. The unit has been working in Texas and has been trouble free since it began operating.

Top drive activity was particularly strong in the first half of the year, with average monthly operating days close to 2,500. Activity dropped off in the second half of the year, reflecting a decline in drilling activity that was particularly evident in North America, with December operating days at 2,024. Early indications suggest that operating days around the world will continue to decline further during the early part of 2002 as drilling activity decreases, with most sources suggesting a recovery late in the year or early in 2003.

At Floor Snubbing

Tesco's proprietary At Floor Snubbing Units ("AFSU") were originally designed by the Corporation to work in conjunction with its Underbalanced Drilling Operations. Retained by the Corporation following the sale of its underbalanced drilling assets, these systems enjoyed a high utilization rate in Canada during the first quarter of 2001, with work also being done in Australia and South America. Over the course of the year we booked approximately 420 AFSU operating days on jobs of various types. (The level of activity declined somewhat during the latter part of the year along with the general decline in oilfield activity). The fleet currently consists of 16 units, half of which are in Canada with the remainder in the United States, Colombia, Argentina, Algeria and Australia.

Capable of pulling with a force of 25,000 lbs and pushing with 50,000 lbs, this service has also experienced success in the "slide assist drilling" and "casing running" markets. The Corporation continues to examine different market opportunities for this versatile product.



Tesco's Model ECI
1,350 HP 500 Ton
Electric Top Drive

Operational Highlights

Mexico: Tesco continues to work closely with the Mexican national oil company, PEMEX. During 2001, the Corporation successfully completed a rig inspection and recertification program involving a major portion of the PEMEX offshore drilling fleet. As we enter the second year of a three-year contract for portable top drive services, we are working with our client on an initiative to substantially reduce personal injury risk through the expanded use of robotics and automated pipe handling systems.

South America: With a total of nine top drive units deployed in Venezuela alone, Tesco has had a very busy year in this Business Unit. We have continued with an initiative to substantially reduce our reliance on expatriate personnel in South America. As a result, at year-end 80% of the operating staff and 100% of the management staff were nationals. This hiring and training initiative has both increased efficiency and improved service quality.

Europe, Africa and Middle East: We have increased the volume of Tesco business being carried on in North Africa and Europe and expanded our structure in this Business Unit. In 2001, we established an operating base in Hassi Massaoud, Algeria. This initiative represents a commitment to expanding both the volume of business done in this region and improving the effectiveness of our service delivery.

Asia Pacific: The use of Tesco's At Floor Snubbing Unit on a difficult underbalanced drilling job in Australia represented a profitable opportunity for this unique piece of equipment. Although a sloughing coal seam prevented completion of the well, the unit, together with a Tesco top drive, performed extremely well. Tesco also continues to dominate the top drive service market in Indonesia, due primarily to service quality and equipment reliability. The Corporation has opened an operations base in Jakarta, demonstrating its commitment to this important area of oilfield activity.

United States: Tesco's US top drive operations were also very successful during the year. The Corporation performed several multi-unit contracts and demonstrated the value and reliability of Tesco top drives on projects that included safety and performance incentives. Although our marketing effort continues to focus on opportunities which permit us to demonstrate the added value of Tesco top drives, we are only cautiously optimistic of the mid to late 2002 recovery of higher activity levels in our industry.

Casing Drilling™ received its most important endorsement to date with the awarding of a long-term contract with Conoco to drill a development program in the Lobo field of South Texas. This contract follows a successful pilot project run by Tesco's Houston based Casing Drilling™ Service Division. Established in the second quarter of 2001, this group will manage the three purpose-built Casing Drilling™ rigs that Tesco will construct in 2002 to meet its commitments to Conoco, and will have a full range of Casing Drilling™ deployment tools in its arsenal.

Canada: The 2001 Q1 winter drilling season was tremendously successful for Tesco in Canada. The Corporation booked record top drive operating days as well as almost 100% utilization for its fleet of six AFSUs. The most technically rewarding AFSU job was a slide assist drilling operation in Northern Alberta where the operator estimated savings at approximately \$3.0 million through optimization of the drilling process.



PRODUCTS DIVISION

Tesco's manufacturing operations were extremely busy during 2001 with 23 top drives and one drilling rig delivered to third parties. Internally, the division added 17 top drives and five AFSU's to the Corporation's service fleet.

The rig, Drillers Technology Inc. Rig #8, incorporates many new automated features. Of these the most notable is its power catwalk, which increases safety by reducing the manual component of pipe handling operations.

Tesco's proprietary portable top drive system continues to be a dynamic product with a number of significant improvements made during this past year. Most notable are the following:

- The "Modular Drive System" for our electric units provides for independent control of each permanent magnet electric motor. In addition to built-in power redundancy, it permits power upgrades for compatible existing electric units by simply stacking on another motor.
- We have improved the power to size ratio of our 250 ton, 450 horsepower electric miniature top drives. By integrating the swivel and gearbox we are able to provide a more compact, cost effective and efficient package.
- With our entry into the hostile desert environments of North Africa, we have developed a new generation cooling system improving the performance of both the electric and hydraulic top drive product lines in these high temperature environments.



Tesco's Purpose Built Casing Drilling Rig with Tesco's Model HMIS 460 HP 250 Ton Hydraulic Top Drive

Selected Consolidated Financial Information

The following is a summary of selected consolidated financial information of the Corporation for the periods indicated:

Years ended December 31	2001	2000	1999	1998	1997
<i>(Millions of dollars)</i>					
Revenues	208.0	134.0	86.6	87.7	106.0
Gross profit	87.9	44.5	26.4	39.2	56.6
Margin %	42%	33%	30%	45%	53%
Operating earnings	34.1	11.8	(7.0)	10.7	37.5
Financial income (expense)	1.5	(1.4)	(5.1)	1.7	1.9
Income on asset sales	15.2	—	—	—	—
Income (loss) from continuing operations	50.8	10.4	(12.1)	12.4	39.4
Earnings (\$ per share):					
Continuing operations	\$ 1.00	\$ 0.21	\$ (0.16)	\$ 0.26	\$ 0.77
Discontinued operations	\$ 0.11	\$ (0.01)	\$ (0.17)	\$ (0.03)	\$ 0.08
Net earnings	\$ 1.11	\$ 0.20	\$ (0.33)	\$ 0.23	\$ 0.85
(Bank borrowings)	134.6	56.6	51.4	(4.8)	44.5
Capital	202.1	115.8	99.0	57.0	83.8
Total assets	347.7	282.0	264.9	230.0	199.0
Total debt	70.2	69.5	69.5	5.0	—
Shareholders' equity	239.2	188.5	175.6	183.6	165.5
Outstanding shares					
(millions of shares)	34.6	24.7	27.3	28.8	26.5
Price (\$ per share)	\$ 13.24	\$ 15.50	\$ 9.20	\$ 6.35	\$ 21.25
Price range (\$ per share)	\$23.02-\$8.00	\$17.15-\$7.30	\$12.40-\$4.00	\$25.75-\$5.70	\$29.25-\$15.80

	12/31/01	9/30/01	6/30/01	3/31/01	12/31/00	9/30/00	6/30/00	3/31/00
Revenues	49.5	46.6	56.9	55.0	43.7	36.8	27.3	26.2
Gross profit	22.5	20.6	23.0	21.8	17.8	12.2	7.4	7.1
Margin %	45%	44%	42%	40%	41%	33%	27%	27%
Operating earnings	5.9	7.0	10.6	10.5	7.7	3.8	(0.2)	0.5
Financial income (expense)	(0.8)	2.7	(2.1)	1.8	(0.7)	(0.2)	(0.3)	(0.2)
Income on asset sales	—	—	—	15.2	—	—	—	—
Income (loss) from continuing operations	5.1	9.6	8.5	27.5	7.0	3.6	(0.5)	0.3
Diluted earnings (\$ per share):								
Continuing operations	\$ 0.09	\$ 0.17	\$ 0.15	\$ 0.58	\$ 0.14	\$ 0.06	(\$ 0.01)	\$ 0.01
Discontinued operations	\$ 0.00	\$ 0.10	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00	(\$ 0.04)	\$ 0.02
Net earnings	\$ 0.09	\$ 0.27	\$ 0.15	\$ 0.59	\$ 0.15	\$ 0.07	(\$ 0.05)	\$ 0.03
Cash	134.6	128.1	113.8	94.4	56.6	54.7	45.2	45.8
Working capital	202.1	197.9	182.5	180.2	115.8	112.3	99.0	101.2
Total assets	347.7	348.0	339.2	326.4	282.0	270.2	260.9	266.0
Long term debt	70.2	69.9	69.7	69.6	69.5	69.4	69.4	69.4
Shareholders' equity	239.2	236.3	226.5	218.9	188.5	183.1	175.2	177.2
Share trading data:								
Volume (millions of shares)	7.4	8.2	9.0	9.9	4.1	5.5	7.2	8.0
Closing price (\$ per share)	\$ 13.24	\$ 8.85	\$ 17.10	\$ 16.50	\$ 15.50	\$ 15.40	\$ 15.10	\$ 9.85



Management's Discussion and Analysis

This discussion of the Corporation's financial results, position and prospects is based on information available at March 13, 2002 and should be read in conjunction with the consolidated financial statements of the Corporation for the years ended December 31, 2001 and 2000. During these years the Corporation discontinued the operations of its industrial and completions segments and segregated its drilling services activities into two divisions – Products and Services. For the purpose of this discussion, historical comparisons and analysis are made on this basis. In 1999, the Corporation changed its year end to December 31 from February 28 and presented audited consolidated financial statements for a ten month transition period to December 31, 1999; for comparative purposes, this discussion and analysis compares information for the years ended December 31, 2001 and 2000 with unaudited information for the twelve months ended December 31, 1999.

RESULTS OF OPERATIONS

Overview

Over the last two fiscal years, the Corporation has aligned its operational and management structure to focus on two core revenue generating activities:

- provides services, including the use of specialized equipment, primarily to oil and gas operators;
- provides the design, manufacture and sale, including after-sales support, of specialized equipment to the oil and gas and mining industries.

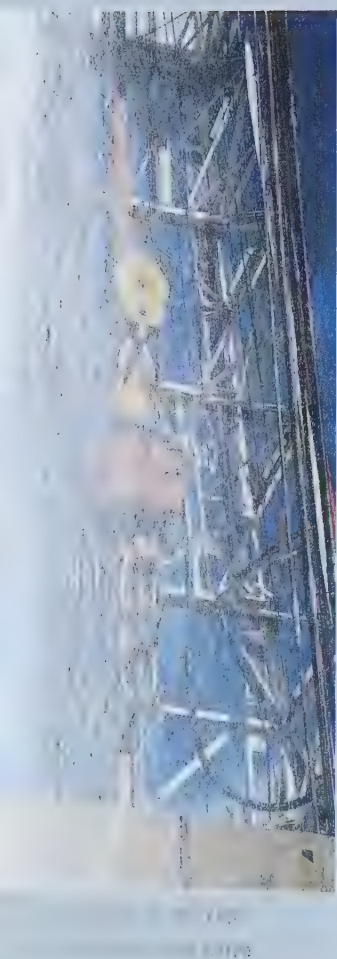
The Corporation believes that the key to its growth is its ability to identify, develop and commercialize innovative drilling technologies. The Corporation commits substantial resources to research and development. Currently, the focus of these activities is on the continuing development of tools and equipment relating to Tesco's patented Casing Drilling™ process.

The Corporation derives revenues principally from the sale of products and services to the oil and gas drilling industry. The Corporation's revenues and profitability are affected by three main factors:

Drilling activity. Drilling activity is strongly correlated with current and expected commodity prices for oil and natural gas. The Corporation's revenues and operating results are affected by changes in the level of drilling activity in that, in times of declining activity, the market for the Corporation's products and services is smaller and prices and margins drop as a result of competitive pressure. Conversely, as activity increases, the overall market is larger and prices tend to rise and margins improve.

Strategy to develop and gain market share. The Corporation believes that its strategy of developing and commercializing new technologies that are focused on improving its customers' drilling economics provide it with a competitive advantage by which the Corporation can increase its share of the market for drilling products and services. The Corporation also recognizes that the introduction of new technology (specifically Casing Drilling™) involves certain investment risks including the possibility that the Corporation incorrectly anticipates the market's acceptance, or rate of acceptance, of the technology, that the Corporation incorrectly identifies the key commercial component of the technology or that competitors are able to gain an advantage with duplicate or parallel technologies.

Strategy to expand its market
The Corporation believes it can achieve higher revenue rates outside of North America in oil and gas fields where the duration and cost of individual drilling projects tend to be greater than in North America. In addition, geographic diversity provides the Corporation with the opportunity to take advantage of regional energy markets that remain active during downturns in North America. At the same time, the Corporation has to bear additional political, economic and currency risks.



Years ended December 31, 2001, 2000 and 1999

Revenues

Operating results for the year ended December 31, 2001 reflected the significant increase in oil and gas drilling activity that began towards the end of 1999. High activity levels continued through to the first half of 2001 before beginning to decline in response to lower oil and gas commodity prices in the latter half of 2001. Revenues for the year ended December 31, 2001 were \$208 million, compared with \$134 million and \$87 million for the years ended December 31, 2000 and 1999 respectively.

Services Division

The following is a summary of the third party revenues of the Services Division for the periods indicated:

<i>Years ended December 31 (\$000)</i>	2001	2000	1999
Portable Top Drives	127,048	80,672	47,291
Well Control	4,037	5,643	2,588
Casing Drilling™	11,434	—	—
Underbalanced Drilling	4,245	7,007	9,745
Other	4,169	4,178	2,818
	150,933	97,500	62,442

Tesco's portable top drive product line is the dominant revenue generator for the Services Division, accounting for over 75% of total division third party revenues in each of the three years. The growth in top drive service revenue over this period has been a function of both increased activity (operating days increased by 42% to 27,799 days in 2001 from 19,512 in 2000) and rates, which averaged \$4,570 per day for 2001, up from an average of \$3,762 in 2000 and \$3,931 per day in 1999. The Corporation's strategy is to distribute its top drive fleet around the world in regional business units centered in areas of significant oil and gas exploration and production activity. Management believes this has allowed the Corporation to respond quickly and effectively to the increased levels of world-wide drilling activity during 2000 and 2001. The geographical distribution of top drive operating days over the last three years is as follows:

Operating days

Region	2001		2000		1999	
	Days	%	Days	%	Days	%
United States	11,623	42	9,041	46	4,254	37
Canada	4,274	15	3,702	19	2,300	20
South America	4,429	16	3,105	16	1,006	9
Mexico	3,258	12	1,822	9	3,289	28
South East Asia	2,526	9	1,521	8	627	5
Europe, Africa, Middle East	1,689	6	321	2	161	1
	27,799		19,512		11,637	

Well control revenues are derived primarily from the Corporation's proprietary At Floor Snubbing Units. This technology, which was developed in conjunction with Tesco's integrated underbalanced drilling systems, was retained when the underbalanced drilling equipment was sold as Management believed that its functionality complemented the

Corporation's top drive and Casing Drilling™ technologies, as well as having independent commercial applications.

Revenues from Casing Drilling™ are generated principally from drilling contracts with oil and gas operators that are serviced using Tesco's proprietary Casing Drilling™ technology. Consistent with standard industry practice, Tesco charges a daily rate for drilling services. Prior to 2001, Casing Drilling™ activities were limited to field testing prototype tools and processes and payments received were credited against research and development expense.

The Corporation sold its underbalanced drilling equipment for \$50.7 million in March 2001, generating a pre-tax gain of \$15.2 million. The decision to sell this equipment was made as part of the strategy to focus Tesco's activities on technologies directly related to the drill string and the drilling process.

Products Division

The following is a summary of the revenues of the Products Division for the periods indicated:

<i>Years ended December 31 (\$'000)</i>	2001	2000	1999
Portable Top Drives	52,864	17,944	9,595
Drilling Rigs	3,207	13,938	12,426
Other	951	4,606	2,157
Total third party	57,022	36,488	24,178
Internal sales	50,702	28,331	5,753
Total revenues	107,724	64,819	29,931
Units delivered			
Portable Top Drives	23	13	11
Drilling Rigs	1	3	1

The Products Division manufactures, sells and provides after-sales support for all of Tesco's proprietary products. Its customers are (externally) drilling contractors and (internally) the Services Division. The Division generates over 80% of its third party revenues from the manufacture and sale of individual top drives and drilling rigs, which are custom-built to the customer's specifications. Revenue is recognized as the product is manufactured, based on engineering assessments of the percentage of completion.

The range of Tesco's portable top drive products includes both hydraulically and electrically powered machines capable of generating 450 to 1,350 horsepower and with a rated lifting capacity range of 250 to 650 tons. Sales prices average approximately \$1.3 million for each system. Customers typically supplement their orders with a supply of auxiliary equipment and spare parts that adds approximately \$0.2 million to the sales value of each top drive system.



EMIS 450 HP
electric Top Drive

The number of portable top drives manufactured and sold by Tesco to third parties and for use by the Services Division over the last three years is as follows:

<i>Years ended December 31</i>	2001	2000	1999
Delivered in year:			
– Third parties	23	13	11
– Services Division	17	7	1
Total	40	20	12

Information from the Baker Hughes Rig Report and Tesco sales agents and field staff indicates that less than 20% of the world's land drilling rigs operate with a top drive. Management believes that there is no significant market impediment restraining Tesco's continued sales of portable top drives.

To date, Tesco has built nine drilling rigs. The first, a prototype, was retained by the Corporation primarily for the purpose of assisting in the testing and development of Casing Drilling™. The remaining eight rigs, all of which are capable of Casing Drilling™ and conventional drilling with drill pipe, were sold to Drillers Technology Corporation ("DTC"). DTC is a Calgary-based drilling contractor, listed on the Toronto Stock Exchange, in which Tesco owns a 22% equity interest and has two representatives on the 7-person board. At December 31, 2001, Tesco had two of the DTC rigs under contract to assist in the delivery of Casing Drilling™ services.

Operating Earnings

Operating earnings are stated after deducting selling, general and administrative expenses, research and development expense and depreciation.

<i>Years ended December 31 (\$000)</i>	2001	2000	1999
Selling, general and administrative	31,049	17,723	20,278
Research and development	10,231	6,462	6,580
Depreciation	12,568	8,516	6,419

The level of selling, general and administrative expenses is generally a function of the Corporation's activity levels. In both 2001 and 2000, these costs represented 15% and 13% of revenues respectively. In 1999, selling, general and administrative expenses were \$20.3 million, or 23% of revenues. The level of expenses in 1999 reflected the fact that the Corporation had incorrectly anticipated the pace and severity of the drilling activity downturn and had commenced an aggressive expansion of its international business unit structure. In the same year, the Corporation incurred \$3.1 million in severance and other one-time costs to respond to the decline in activity levels.

The Corporation's research and development expense is a function of the number and scope of development projects identified by Management as having commercial potential. Over the three years to 2001, over 90% of research and development expense has been incurred in relation to the Casing Drilling™ project. In fiscal 2001, research and development expense on the Casing Drilling™ project totaled \$9.6 million.

The largest component of depreciation expense relates to depreciation of the Corporation's drilling service equipment. This expense is calculated on a usage basis and therefore closely correlates with activity levels. The increase in depreciation expense in 2001 compared with

2000 is also the result of a decision to commence amortizing the capitalized technology and development costs related to Casing Drilling™. This expense is \$0.9 million annually. Depreciation expense for 2000 is lower than 1999 despite increased activity levels due to the fact that the 1999 expense includes a goodwill write down of \$1.9 million.

Financial Expenses

<i>Years ended December 31 (\$'000)</i>	2001	2000	1999
<i>Interest income</i>	4,523	3,002	2,652
<i>Interest expense</i>	5,577	5,407	5,597
Net interest expense	1,054	2,405	2,945
Foreign exchange (gain) loss	(2,747)	(1,055)	2,113
Other financial items	158	60	96

The Corporation's interest expense is payable on the US\$46.5 million Senior Notes at a fixed rate of 7.59% annually. This expense fluctuates as a result of changes in the exchange rate between the Canadian and US dollars. The Corporation earns interest on the investment of its cash balances in short-term, highly liquid money market instruments. The interest earned varies due to changes in the amount of cash available for investment and in short-term market interest rates. Cash balances, short-term interest rates and the exchange rate of the US dollar on the dates indicated were:

	Cash balance	Bank of Canada rate	Exchange rate
<i>At December 31:</i>	\$million	%	US/Cdn\$
1998	11.4	5.25	1.53
1999	51.4	5.00	1.44
2000	56.8	6.00	1.50
2001	134.6	2.50	1.59

The Corporation's foreign exchange gains and losses arise principally from the conversion to Canadian dollars of monetary assets and liabilities, excluding the Senior Notes, denominated in US dollars. A significant portion of the Corporation's business is conducted in US dollars, which gives rise to cash, accounts receivable and accounts payable balances that are denominated in that currency and which are required, under the Corporation's accounting policies, to be converted to Canadian dollars at exchange rates in effect at the balance sheet date. The foreign exchange gain or loss therefore fluctuates depending on the amount of net US dollar denominated monetary assets on hand and the changes in the US/Canadian dollar exchange rate. Averaging the monthly exchange gains and losses experienced by the Corporation over the last two years, every one cent change in the Canadian/US dollar exchange rate generated a pre-tax earnings effect of \$0.3 million.

Tesco conducts business and holds assets, including monetary assets, in numerous countries, one of which is Argentina. Although the operating currency of Tesco's Argentine operations is US dollars, certain actions taken by the government of Argentina in response to that country's currency crisis have exposed the Corporation to a risk of loss from the devaluation of the Argentine peso and the enforced conversion of US dollar assets held in the country. Management has provided \$0.7 million in response to this risk; this amount is included in foreign exchange gains and losses for the year ended December 31, 2001 and represents Management's best estimate of the loss exposure at year end. It is possible that

events subsequent to year-end will require reassessments of this estimate. The effect of these reassessments will be accounted for when they occur.

Gain on Sale of Assets

In 1996, the Corporation perceived an opportunity to market an efficient underbalanced drilling service and began the development of an integrated underbalanced drilling system. Between 1996 and 2000, Tesco assembled a fleet of integrated underbalanced drilling units and related equipment and marketed services using this equipment around the world. Although the equipment and Tesco's service was well received by the industry, in early 2001 Management concluded that this service was inconsistent with the Corporation's principal strategic focus and sought a purchaser for the assets. A sale was concluded in March 2001 for gross proceeds of \$50.7 million, realizing a gain, before taxes, of \$15.2 million.

Income Taxes

The Corporation conducts business and is taxable on profits earned in a number of different jurisdictions around the world. Income tax expense as a percentage of pre-tax earnings fluctuates from year to year based on the level of profits earned in and tax rates applicable to these different jurisdictions. However, as a consequence of the globalization of world economies, there is a tendency for corporate tax rates to converge into a reasonably narrow band of between 35% to 40% of taxable profits.

The Corporation has been advised by the Mexican tax authorities that they believe significant expenses incurred by Tesco's Mexican operations, commencing in 1996, are not deductible for Mexican tax purposes. Management, in consultation with its Mexican tax advisors, is disputing the position of the tax authorities, who have not issued any formal assessments. In the event the Corporation is unable to sustain its position, Management believes that the effect of any additional taxes payable in Mexico will be mitigated to some extent by a reduction of taxes payable in other jurisdictions. However, the Corporation would be exposed to interest and penalties that would result in a charge to earnings. Management is unable to make any reasonable estimate at this time of the amount of additional expense, if any, that may be incurred by the Corporation in settling this issue.

Discontinued Operations

Discontinued operations includes the results of the Completions Division, the assets of which were sold effective July 31, 2001, and the Industrial Division, which was closed down on June 30, 1999. In addition to the historical operating results of these divisions, the net gain from discontinued operations in 2001 includes an after-tax profit on sale of the Completions Division of \$3.2 million. The net loss from discontinued operations in 2000 includes an after-tax expense of \$1.2 million in respect of closure costs for the Industrial Division.

ACCOUNTING POLICIES

The preparation and presentation of the Corporation's financial statements requires Management to make estimates that significantly affect the results of operations and financial position reflected in the financial statements. In making these estimates, Management applies accounting policies and principles that it considers provide the most meaningful and reliable financial reporting. Management considers the most significant of these estimates and their impact to be:

Accounting for stock options

The Corporation does not recognize any compensation expense on options granted to employees. Generally accepted accounting principles require Management to adopt one of two approaches to accounting for employee stock options. The alternative chosen by Management results in no compensation expense being recognized in the financial statements. The other alternative requires the recognition of a compensation expense based on the theoretical fair value of each option at its grant date. Management believes that the alternative of not recognizing a compensation expense on the granting of employee stock options is preferable as the computation of a compensation expense based on theoretical fair value would result in substantial volatility in compensation expense driven by factors external to the Corporation. Commencing in 2002, the Corporation will be required to disclose, by way of footnote to the consolidated financial statements, the amount that would have been recognized as compensation expense had the theoretical fair value method of accounting for employee stock options been adopted.

Percentage of completion revenue recognition

The Corporation recognizes revenue on specialized manufacturing contracts based on the percentage of completion of the contract. This requires Management to estimate the percentage of the total contract revenue earned. The amounts of revenue accrued in respect of contracts in progress at year end for the last three years is:

<i>Years ended December 31 (\$000)</i>	2001	2000	1999
Revenues	11,304	5,086	8,658

Deferral of technology and development costs

The Corporation capitalizes certain product development costs based on management's estimates of the ability of the Corporation to recover these costs from future profits expected from the product. In the event that Management's initial estimates of the commercial viability of a product are incorrect, capitalized costs must be written off. At December 31, 2001, the Corporation's net book value of capitalized technology and development costs was \$10.5 million, of which \$9.4 million relates to the acquisition of Tesco's Casing Drilling™ technology.

IMPACT OF ANTICIPATED ACCOUNTING CHANGES

The Corporation prepares its financial statements using policies that conform with accounting principles generally accepted in Canada. From time to time, the Canadian Institute of Chartered Accountants ("CICA") mandates changes to these principles that require changes to the Corporation's accounting policies. As a result of changes announced by the CICA, the Corporation expects the following policies to be affected commencing January 1, 2002.

Foreign currency translation

Currently, the Corporation converts its US dollar denominated long term debt using the current exchange rate and defers gains and losses arising from changes in the exchanges rate. These gains and losses are amortized over the remaining term of the debt. Effective January 1, 2002, the Corporation will be required to include all foreign exchange gains and losses, including those arising from the conversion of its US dollar long term debt, in the statement of earnings as they arise. Based on the Corporation's current US dollar long term

debt of US\$46.5 million, this change in policy will affect pre-tax earnings by approximately \$0.5 million for every 1 cent change in the US/Canadian dollar exchange rate.

The Corporation also intends to restate its prior years' financial statements to reflect this change. The impact on net earnings and diluted earnings per share for each of the last three years will be:

<i>Years ended December 31</i>	2001	2000	1999
Net earnings – as reported	37,787	6,502	(10,503)
– effect of change in policy	(3,713)	(2,730)	2,773
– as restated	34,074	3,772	(7,730)
Diluted EPS – as reported	\$1.11	\$0.20	(\$0.33)
– effect of change in policy	(\$0.11)	\$(0.08)	\$0.09
– as restated	\$1.00	\$0.12	(\$0.24)

Goodwill

Currently, the Corporation's accounting policy is to amortize goodwill arising on the acquisition of businesses on a straight-line basis over five to ten years. This policy will change effective January 1, 2002 to a requirement to assess the current fair value of goodwill and provide for any deficiency between the carrying amount and the fair value as an impairment loss. Management anticipates no impact of the application of this policy change on Tesco's financial statements, as the Corporation carried no goodwill on its balance sheet at December 31, 2001.

Stock-based compensation

The Corporation does not currently recognize any compensation expense with respect to stock options granted under its employee stock option plan, nor does it disclose the effect on net earnings and earnings per share of accounting for the compensation expense that would arise if the grant of options were accounted for based on their fair value.

Effective January 1, 2002, the Corporation will be required to provide disclosure relating to the fair value of options granted under its employee stock option plan and to disclose pro forma net earnings and earnings per share as though a compensation expense were computed and accounted for using a fair value method in respect of options granted after January 1, 2002. Since this pro forma disclosure is only required in respect of options granted after January 1, 2002, management is unable to estimate what the effect of this change may be.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation is growth oriented and has historically financed its growth by obtaining capital from sources other than operational earnings. Over the three years from 1999 to 2001, the Corporation has obtained growth capital from three sources:

- During 2001, approximately \$70 million was generated from the sale of underbalanced drilling equipment and the Completions Division.
- Over the three years to December 31, 2001, the Corporation has raised a total of \$20.2 million from the exercise of employee share purchase options. Management has no ability to control the exercise of options, which is dependent on the market price of the

Corporation's shares relative to the exercise price of outstanding options, and does not consider the receipt of funds from this source in its financing plans. At December 31, 2001, if all issued options were exercised, the Corporation would receive proceeds of \$26.5 million.

- In January, 1999, the Corporation raised \$70.2 million by issuing US\$46.5 million in unsecured Senior Notes, which are payable on October 15, 2004. This debt represents 29% of shareholders' equity which, at December 31, 2001 was \$239.2 million. Management has no present plans to raise additional debt financing, although it believes that the Corporation's current debt to equity ratio and capacity to generate earnings provide the Corporation with the capacity to incur additional debt if required.

The terms of the Senior Notes include financial covenants that require the Corporation to maintain certain financial ratios and restrict or place conditions on the Corporation's ability to enter into certain transactions. The Corporation is in compliance with all of the covenants of the Senior Notes.

Over the last three years the Corporation has made a significant investment in expanding its fleet of drilling equipment, principally portable top drives, and in developing its proprietary Casing Drilling™ technology. Capital expenditures to build portable top drive systems were:

<i>Years ended December 31 (\$million):</i>	<u>Cost</u>
1999	0.5
2000	6.1
2001	<u>14.4</u>

Expenditures on developing Casing Drilling™, including both research and development expense and capital expenditures to build Casing Drilling™ tools, were:

<i>Years ended December 31 (\$million):</i>	<u>R&D expense</u>	<u>Capital expenditures</u>
1999	6.6	4.2
2000	6.1	–
2001	9.6	<u>1.4</u>

Going forward, Management has identified the Corporation's current fragmented manufacturing and production facilities as being a significant operating constraint and has obtained Board approval to commit up to \$10 million to acquire land on which to build an integrated, flexible facility in Calgary in which to manufacture and assemble the Corporation's expanding range of proprietary products more efficiently.

Management expects to maintain at least the current level of investment in developing its fleet of drilling equipment, although it is likely that the focus of this investment will be on Casing Drilling™ related expenditures. In this regard, the Casing Drilling™ contract signed with Conoco requires the Corporation to build three Casing Drilling™ rigs in 2002; Management estimates the cost of these rigs, which will be built at Tesco's Calgary manufacturing facilities, will be US\$13 million. Management also anticipates maintaining the current level of research and development expenditure of approximately \$1.0 million a month on activities relating to Casing Drilling™.

Based on the Corporation's cash position at December 31, 2001, Management does not anticipate having to raise additional external capital in 2002 to finance these investment objectives.

OUTLOOK

Industry forecasts indicate that the level of drilling expenditure and activity in 2002 will be substantially lower than 2001. According to World Oil, drilling activity for the last three years and forecast for 2002 is:

<i>Years ended December 31</i>	2002	2001	2000	1999
Wells drilled				
– US	30,249	32,894	29,994	18,700
– Canada	14,400	18,000	16,529	11,351
– Latin America	3,669	4,019	3,432	2,177
– Europe, N. Africa, Middle East	8,351	8,167	8,852	5,080
– Far East	12,700	12,394	12,039	12,009
Worldwide	69,369	75,474	70,846	49,317

Management expects this decline in industry activity relative to 2001 to be reflected in the Corporation's operating results for 2002. The decline in revenues, which began in the third quarter of 2001, will be offset in 2002 to some extent by an increased contribution from the Corporation's new technologies, principally Casing Drilling™. Management will also be focusing on identifying and implementing cost efficiencies with the objective of delivering increased operating earnings despite declining revenues.

RISK FACTORS

The Corporation's operations are subject to the risks involved in providing and operating oilfield drilling equipment internationally. These risks include, but are not limited to the following:

Economic Risks

Economic risks, such as fluctuations in oil and gas commodity prices and currency exchange rates and political and fiscal instability affecting foreign operations.

- Fluctuations in oil and gas commodity prices impact the levels of drilling activity which is a significant driver of the Corporation's business. In times of declining activity, not only is there less opportunity for the Corporation to sell its products and services but there is increased competitive pressure that tends to reduce prices and therefore margins.
- The Corporation accounts for and reports its activities in Canadian dollars, although a material amount of its business is conducted in other currencies, principally US dollars, whose rates of exchange to the Canadian dollar fluctuate. These fluctuations, which are outside of the control of management, create gains and losses for the Corporation that are included in the determination of its earnings.
- Countries in which the Corporation conducts business have the ability to respond to political and fiscal issues by restricting the repatriation or confiscating the business assets of the Corporation in a manner that adversely affects the value of those assets and results in a loss to the Corporation.

Competitive Risks

Competitive risks, such as decisions by existing competitors to attempt to increase market share by reducing prices and decisions by customers to adopt competing technologies. The drilling industry is driven primarily by cost minimization. The Corporation's strategy is aimed at reducing drilling costs through the application of new technology. Competitors, many of whom have more a diverse product line and access to greater amounts of capital, have the ability to compete against the cost savings generated by the Corporation's technology by reducing prices and by introducing competing technologies. The Corporation has limited resources to sustain a prolonged price war and maintain the investment required to continue the commercialization and development of its new technologies.

In addition to factors in the external environment, the Corporation is exposed to the risk that management will:

- develop and implement strategies and plans that are ineffective in light of industry conditions and trends;
- implement and manage business processes that do not effectively utilize and control the resources of the Corporation;

resulting in losses for the Corporation's shareholders.

Financial Review

Management's Report

Management is responsible for the preparation of the consolidated financial statements and the information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using appropriate accounting policies, methods and estimates as selected by management giving consideration to the Corporation's circumstances. The financial and operating information included in this annual report is consistent, in all material respects, with that contained in the consolidated financial statements.

The Corporation maintains systems of accounting and internal controls to provide reasonable assurance that its financial information is reliable, relevant and accurate, and that its assets are adequately safeguarded.

The Audit Committee, consisting of three non-executive directors, is responsible for reviewing the consolidated financial statements and other financial information contained in this annual report and overseeing management's performance of its financial reporting responsibilities. The external auditors have unlimited access to the Audit Committee, are appointed by the Shareholders, and have independently examined the consolidated financial statements on the recommendation of the Audit Committee.



Robert M. Tessari
President and Chief Executive Officer



Martin Hall
Senior Vice President Finance and Secretary

Auditors' Report

To the Shareholders of Tesco Corporation

We have audited the consolidated balance sheets of Tesco Corporation as at December 31, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years ended December 31, 2001 and 2000. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000 in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers
Chartered Accountants

Calgary, Alberta
March 13, 2002

Consolidated Balance Sheets

As at December 31

(Thousands of Canadian Dollars)

	2001 \$	2000 \$	1999 \$
ASSETS			
Current assets			
Cash	134,568	56,576	51,435
Accounts receivable	67,588	54,804	34,120
Income taxes recoverable (note 11)	—	—	391
Inventories	29,426	23,857	29,346
	231,582	135,237	115,292
Property, plant and equipment (note 3)	95,026	119,377	117,566
Investment (note 4)	10,293	9,532	9,110
Intangible and other assets (note 5)	10,824	17,840	22,891
	347,725	281,986	264,859
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	28,917	19,029	16,259
Income taxes payable (note 11)	588	411	—
	29,505	19,440	16,259
Long term debt (note 6)	70,222	69,474	69,523
Future income taxes (note 11)	8,779	4,619	3,452
	108,506	93,533	89,234
Contingency (note 7)			
SHAREHOLDERS' EQUITY			
Share capital (note 8)	146,983	134,004	127,678
Retained earnings	92,236	54,449	47,947
	239,219	188,453	175,625
	347,725	281,986	264,859

Signed on behalf of the Board of Directors



Director



Director

Consolidated Statements of Earnings and Retained Earnings

For the years ended December 31

(Thousands of Canadian Dollars, except per share information)

	2001	2000	1999 (Unaudited – supplemental)
	\$	\$	\$
Sales	207,955	133,988	86,620
Cost of sales	120,041	89,462	60,257
Gross profit	87,914	44,526	26,363
Expenses			
Selling, general and administrative	31,049	17,723	20,278
Research and development	10,231	6,462	6,580
Depreciation and amortization	12,568	8,516	6,419
Financial (income) expense (note 9)	(1,535)	1,410	5,154
	52,313	34,111	38,431
Earnings (loss) before gain on sale of assets, income taxes and discontinued operations	35,601	10,415	(12,068)
Gain on sale of property, plant and equipment (note 10)	15,190	–	–
Earnings (loss) before income taxes and discontinued operations	50,791	10,415	(12,068)
Income taxes:			
– current (note 11)	12,582	2,747	(6,845)
– future (note 11)	4,160	991	–
	16,742	3,738	(6,845)
Net earnings (loss) from continuing operations	34,049	6,677	(5,223)
Net earnings (loss) from discontinued operations (note 12)	3,738	(175)	(5,280)
Net earnings (loss) for the year	37,787	6,502	(10,503)
Retained earnings – beginning of year	54,449	47,947	58,450
Retained earnings – end of year	92,236	54,449	47,947
Earnings (loss) per share:			
Basic			
Continuing operations, including gain on sale of assets	\$ 1.01	\$ 0.21	\$ (0.16)
Discontinued operations	\$ 0.11	\$ (0.01)	\$ (0.17)
Net earnings	\$ 1.12	\$ 0.20	\$ (0.33)
Weighted average number of shares	33,611,950	32,376,630	32,007,200
Diluted			
Continuing operations, including gain on sale of assets	\$ 1.00	\$ 0.21	\$ (0.16)
Discontinued operations	\$ 0.11	\$ (0.01)	\$ (0.17)
Net earnings	\$ 1.11	\$ 0.20	\$ (0.33)
Weighted average number of shares	34,189,789	32,898,464	32,215,820

Consolidated Statements of Cash Flows

For the years ended December 31
(Thousands of Canadian Dollars)

	2001	2000	1999
			(Unaudited – supplemental)
	\$	\$	\$
OPERATING ACTIVITIES			
Net earnings (loss) from continuing operations for the year	34,049	6,677	(5,223)
Adjusted for items not requiring an outlay of cash:			
Future income taxes	4,160	991	–
Book value of rental equipment sold (note 3)	–	922	2,720
Depreciation and amortization	12,568	8,516	6,419
Gain on sale of property, plant and equipment (note 10)	(15,190)	–	–
Amortization of financial items	953	(61)	55
Equity in earnings of affiliate (note 4)	(762)	(422)	–
	35,778	16,623	3,971
Changes in non-cash balances affecting operations (note 13)	(6,968)	(18,561)	(14,322)
Cash from (used in) discontinued operations	(1,169)	14,889	(15)
	27,641	12,951	(10,366)
INVESTING ACTIVITIES			
Additions to property, plant and equipment (note 3)	(26,953)	(14,015)	(1,928)
increase (decrease) in accounts payable	(2,477)	1,479	108
	(29,430)	(12,536)	(1,820)
Proceeds on sale of property, plant and equipment	49,477	–	–
Cost of investment	–	–	(9,110)
Issue of notes receivable	(1,585)	–	–
Payments received on notes	668	–	–
Net expenditures on technology and development costs	(180)	–	(4,213)
	18,950	(12,536)	(15,143)
Cash from (used in) discontinued operations:			
Proceeds on sale (note 12)	18,422	–	–
Closure costs (note 12)	–	(1,600)	–
	37,372	(14,136)	(15,143)
FINANCING ACTIVITIES			
Issue of share capital (note 8)	12,979	6,326	892
Proceeds from issuing unsecured notes	–	–	69,650
Repayment of long term debt	–	–	(5,000)
	12,979	6,326	65,542
Net increase in cash position during year	77,992	5,141	40,033
Cash – beginning of year	56,576	51,435	11,402
Cash – end of year	134,568	56,576	51,435
Cash is comprised of:			
Bank balances	15,127	11,545	5,439
Money market investments	119,441	45,031	45,996
	134,568	56,576	51,435

For the years ended December 31, 2001, 2000 and 1999

(Thousands of Canadian Dollars)

(Supplemental information with respect to the year ended December 31, 1999 is unaudited)

Tesco Corporation provides a range of products and services to reduce the cost of drilling for oil and gas. The Corporation conducts its business in all major oil producing regions of the world.

The Corporation changed its year end from February 28 to December 31 in 1999 and presented audited consolidated financial statements for the ten month transition period from March 1 to December 31, 1999. For comparative purposes only, the Corporation has prepared supplemental unaudited consolidated financial statements for the year ended December 31, 1999.

1 Accounting Policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of these financial statements requires management to make estimates in the application of the Corporation's accounting policies, including the determination of revenue amounts, the expected useful lives of property, plant and equipment and the recoverability of capitalized technology and development costs, based on its judgment of the likely outcome of future events. As such, the actual outcome will be different than expected and such differences may have a material financial effect on future reported results.

Significant specific accounting policies applied by the Corporation are:

a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its domestic and foreign subsidiaries, all of which are wholly owned.

b) Foreign currency translation

The Corporation's foreign operations are considered to be fully integrated and all amounts in foreign currencies have been translated to Canadian dollars on the following basis:

- monetary assets and liabilities, at the exchange rate prevailing at year end;
- non-monetary assets and liabilities at historic rates of exchange;
- revenues and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets), at the average rate of exchange for the period.

Resulting foreign exchange translation gains and losses, including those arising from other transactions denominated in foreign currencies, are included in the statement of earnings, except that the exchange gain or loss arising on the conversion of the Corporation's long term debt denominated in U.S. dollars is deferred and amortized over the life of the debt.

c) Revenues

Revenue from services, including the provision of the Corporation's drilling equipment, is recognized as the services are rendered based upon agreed daily, hourly or job rates. Revenue from the sale of products, other than equipment built pursuant to specialized manufacturing contracts, is recognized when the product is delivered to the customer with no right of return. Revenue from the sale of equipment built pursuant to specialized manufacturing contracts is recognized over the term of the contract applying the percentage of completion method using measurements of progress towards completion appropriate for the work performed. Anticipated losses on such contracts are provided for in full when any such loss is identified. The Corporation provides product performance warranties on equipment sold pursuant to manufacturing contracts and makes provision for the anticipated cost of these warranties through cost of goods sold; this warranty provision is reviewed periodically to assess its adequacy in the light of actual warranty costs incurred.

d) Cash

Cash includes investments in highly liquid money market instruments, which are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and which are held to meet operating requirements.

e) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes materials, direct labour and applicable factory overhead computed on a first-in, first-out basis.

Inventories that are held for use beyond the end of the Corporation's one-year business cycle are excluded from current assets and classified with other assets.

f) Property, plant and equipment

The Corporation's drilling equipment maintained for the provision of drilling services to customers is included as drilling equipment in property, plant and equipment. The sale of such equipment results in its net book value being expensed as cost of sales.

g) Depreciation and amortization

Depreciation and amortization of property, plant and equipment and intangible assets is computed on the following basis:

Asset Category	Description	Method	Rate
Land, buildings and leaseholds	Land	None	–
	Buildings	Straight line	20 years
	Leasehold improvements	Straight line	Lease term
Drilling equipment	Major equipment	Usage	1,650 – 3,650 days
	Support equipment	Declining balance	40%
Manufacturing equipment		Declining balance	20%
Office and other	Computer hardware and software	Straight line	3 – 5 years
	Furniture, equipment and vehicles	Declining balance	20% – 30%
Technology and development costs		Straight line	12 years

The estimated residual value of all capital assets is immaterial.

h) Investment

Investments that result in the Corporation having significant influence over the strategic business decisions of the investee are accounted for using the equity method.

i) Research and development

The Corporation expenses research and development costs other than the costs of product development for specific applications the recovery of which, in the opinion of management, can be reasonably assured given existing and anticipated future industry conditions. Such costs are capitalized as technology and development costs and amortized over the expected useful life of the asset. Payments received from third parties, including payments for the use of equipment prototypes, during the research or development process are credited to the related costs. Product development costs that are capitalized are assessed periodically by reference to anticipated future undiscounted cash flows to determine if the carrying value is still appropriate.

j) Income taxes

The Corporation recognizes future income tax assets and liabilities in respect of the estimated tax consequences attributable to differences between amounts reported in the financial statements and the tax bases of these amounts using enacted or substantively enacted tax rates that are expected to apply when the differences are anticipated to reverse. The effect of a change in tax rates on future income tax assets or liabilities is recognized in the period that the change occurs.

k) Stock-based compensation

No compensation expense is recognized in respect of stock options granted under the Corporation's Stock Option Plan described in Note 8. Consideration received on the exercise of stock options is credited to share capital.

l) Per share information

Per share information is computed using the weighted average number of common shares

For the years ended December 31, 2001, 2000 and 1999

(Thousands of Canadian Dollars)

(Supplemental information with respect to the year ended December 31, 1999 is unaudited)

outstanding during the year. Diluted per share information is calculated using the treasury stock method. The treasury stock method assumes that any proceeds obtained upon exercise of options would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti dilutive.

2 Financial Instruments

The carrying value of cash, investments in short-term commercial paper and other money market instruments, accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the relatively short-term period to maturity of the instruments.

The fair value of the Corporation's long-term debt depends primarily on current market interest rates for debt issued with similar maturities by companies with risk profiles similar to the Corporation's. In management's opinion, the fair value of the Senior Notes at December 31, 2001 is \$77,559. (2000 – \$69,722, 1999 – \$67,137).

The Corporation's accounts receivable are principally with major international and state oil and gas service and exploration and production companies and are subject to normal industry credit risks.

The majority of the value of the Corporation's business is conducted in Canadian dollars. However, a significant volume of business is conducted in U.S. dollars. The Corporation's management monitors the expected net cash flows of U.S. dollars and enters into contracts to sell and purchase U.S. dollars at future dates with major financial institutions when warranted. At December 31, 2001, 2000 and 1999, the Corporation had no commitments to sell or purchase U.S. dollars in future periods.

The Corporation has negotiated an unsecured credit facility with its bankers that provides a maximum loan, repayable on demand, of \$15,000. Interest on amounts drawn under the facility is at the bank's prime rate. At December 31, 2001, 2000 and 1999, no amounts were drawn under the facility.

3 Property, Plant and Equipment

	Cost	Accumulated Depreciation and Amortization	Net Book Value
	\$	\$	\$
At December 31, 2001			
Land, buildings and leaseholds	8,187	1,652	6,535
Drilling equipment	107,183	27,860	79,323
Work in progress	2,384	–	2,384
Manufacturing equipment	5,205	2,176	3,029
Office and other	8,576	4,821	3,755
	131,535	36,509	95,026
At December 31, 2000			
Land, buildings and leaseholds	8,420	1,555	6,865
Drilling equipment	127,095	22,782	104,313
Work in progress	1,181	–	1,181
Manufacturing equipment	7,403	3,734	3,669
Office and other	7,429	4,080	3,349
	151,528	32,151	119,377
At December 31, 1999			
Land, buildings and leaseholds	8,585	1,471	7,114
Drilling equipment	117,499	17,038	100,461
Work in progress	3,378	–	3,378
Manufacturing equipment	5,822	2,691	3,131
Office and other	6,907	3,425	3,482
	142,191	24,625	117,566

Drilling equipment includes related manufacturing costs and overhead. Work in progress, which relates to drilling equipment under construction, is not depreciated. The net book value of drilling equipment included in cost of sales for the year is \$Nil (2000 – \$922, 1999 – \$2,720).

4 Investment

The Corporation has invested a total of \$9,110 in the common shares of Drillers Technology Corporation (DTC), a publicly traded drilling contractor based in western Canada. This investment represents an interest of 22% in the outstanding common shares of DTC and is accounted for using the equity method as follows:

	2001	2000	1999
	\$	\$	\$
Common shares	9,110	9,110	9,110
Accumulated equity in earnings	1,183	422	-
	10,293	9,532	9,110

The book value of the Corporation's investment exceeded its percentage interest in the book value of DTC's net assets by \$1,769. This excess is attributed to the value of DTC's drilling equipment and is being amortized on the same basis as these assets, which is the operating days method over 3,650 drilling days. The Corporation's equity interest in the earnings of DTC is included in financial income (expense) (Note 9).

The Corporation entered into an agreement with DTC that requires the Corporation to use DTC rigs on all Casing Drilling™ contracts obtained by the Corporation in Canada until December 31, 2003, subject to the availability of suitable DTC rigs at market rates and the right of the Corporation's customers to specify an alternative rig. This agreement also provides the Corporation with a right of first refusal to build any new rigs for DTC, subject to competitive terms.

During the years ended December 31, 2001 and 2000 the Corporation manufactured drilling rigs for DTC and DTC rented rigs to the Corporation for certain drilling projects. These transactions were entered into on normal commercial terms and all inter-company profits have been eliminated. The following amounts are included in the consolidated financial statements in respect of these transactions:

	2001	2000
	\$	\$
Revenues	2,828	11,619
Cost of sales	2,894	-
Research and development expense	1,843	1,147
Accounts receivable	26	3,258
Accounts payable	999	873

5 Intangible and Other Assets

	2001	2000	1999
	\$	\$	\$
Technology and development costs	13,126	12,947	12,947
Less: accumulated amortization	(2,635)	(1,695)	(1,441)
	10,491	11,252	11,506
Inventory	-	5,547	11,118
Goodwill, net of accumulated amortization (1999 – \$1,085)	-	-	267
Notes and other non-current receivables	1,970	1,053	-
Less: current portion	(1,637)	(12)	-
	333	1,041	-
	10,824	17,840	22,891

For the years ended December 31, 2001, 2000 and 1999

(Thousands of Canadian Dollars)

(Supplemental information with respect to the year ended December 31, 1999 is unaudited)

Inventory is comprised of parts that the Corporation does not expect to use within the normal business cycle of one year.

Notes and other non-current receivables arise from the sale of assets by the Corporation and are due on various dates up to June 30, 2004. Interest is charged on amounts outstanding at various rates. Management assesses the value of these receivables periodically with reference to rates of interest being charged, time to maturity and risk of default. In management's opinion, the fair value of the notes at December 31, 2001, 2000 and 1999 is not materially different from their book values. The current portion is included in current assets and classified with accounts receivable.

6 Long Term Debt

Long-term debt consists of U.S.\$46,500 unsecured Senior Notes due on October 15, 2004. These notes bear interest at 7.59% payable semi-annually and include covenants that restrict the Corporation's ability to pay dividends in certain circumstances. Costs, principally commission and legal fees, incurred in obtaining this financing are deferred and amortized over the term of the debt. Exchange gains and losses arising from converting the principal amount of the debt from U.S. to Canadian dollars at period end exchange rates are deferred and amortized over the remaining term of the debt.

	2001	2000	1999
	\$	\$	\$
Debt principal (U.S.\$46,500)	74,084	69,722	67,137
Deferred foreign exchange gain (loss)	(3,589)	134	2,871
Deferred financing costs	(273)	(382)	(485)
	70,222	69,474	69,523

7 Contingency

The Corporation has been advised by the Mexican tax authorities that they believe significant expenses incurred by Tesco's Mexican operations, commencing in 1996, are not deductible for Mexican tax purposes. Management, in consultation with its Mexican tax advisors, is disputing the position of the tax authorities, who have not issued any formal assessments. In the event the Corporation is unable to sustain its position, management believes that the effect of any additional taxes payable in Mexico will be mitigated to some extent by a reduction of taxes payable in other jurisdictions. However, the Corporation would be exposed to interest and penalties that would result in a charge to earnings. Management is unable to make any reasonable estimate at this time of the amount of additional expense, if any, that may be incurred by the Corporation in settling this issue.

8 Share Capital

a) Authorized

- Unlimited common shares without par value
- Unlimited first preferred shares issuable in series
- Unlimited second preferred shares issuable in series

b) Issued common shares

	Number of Shares	Amount \$
Balance – December 31, 1998	31,722,000	126,786
Issued for cash on exercise of stock options	345,700	892
Balance – December 31, 1999	32,067,700	127,678
Issued for cash on exercise of stock options	668,264	6,326
Balance – December 31, 2000	32,735,964	134,004
Issued for cash on exercise of stock options	1,155,967	12,979
Balance – December 31, 2001	33,891,931	146,983

c) Stock options

The Corporation is authorized to issue a maximum of 7,320,000 options to purchase common shares to officers, directors and employees. Options are exercisable at the market price of the shares on the grant date, vest in equal portions at the end of the first, second and third years and must expire no later than five years from the date of grant. Options outstanding and changes during the years ended December 31, 2001, 2000 and 1999 are:

	2001		2000		1999	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding – beginning of period	2,787,534	\$ 10.58	2,607,200	\$ 10.87	3,052,150	\$ 12.42
Granted	705,000	\$ 17.71	1,095,000	\$ 8.93	110,000	\$ 6.73
Exercised	(1,155,967)	\$ 11.22	(668,264)	\$ 9.47	(345,700)	\$ 2.71
Expired	(212,600)	\$ 11.37	(246,402)	\$ 11.92	(209,250)	\$ 14.52
Outstanding – end of period	2,123,967	\$ 12.51	2,787,534	\$ 10.58	2,607,200	\$ 10.87
Exercisable at end of period	861,261	\$ 11.21	1,525,022	\$ 11.19	1,896,200	\$ 11.12

Details of the exercise prices and expiry dates of options outstanding at December 31, 2001 are as follows:

Exercise price	Options outstanding	Weighted average years to expiry	Weighted average exercise price	Vested options	Weighted average exercise price
\$6.50 – 9.75	845,667	3.0	\$ 8.17	276,428	\$ 7.88
\$9.75 – 14.95	636,500	1.8	\$ 12.16	544,833	\$ 11.83
\$14.95 – 20.00	625,000	4.3	\$ 17.90	–	n/a
\$25.75	40,000	0.8	\$ 25.75	40,000	\$ 25.75

The gross proceeds to the Corporation if all outstanding options were exercised would be \$26,530.

9 Financial (Income) Expense

Items comprising net financial (income) expense are:

	2001	2000	1999
	\$	\$	\$
Interest income	(4,523)	(3,002)	(2,652)
Interest expense	5,577	5,407	5,597
Foreign exchange (gain) loss	(2,747)	(1,055)	2,113
Other financial items	158	60	96
	(1,535)	1,410	5,154

Interest expense includes \$5,568 (2000 – \$5,248, 1999 – \$5,363) in respect of debt initially incurred for a period exceeding one year.

For the years ended December 31, 2001, 2000 and 1999

(Thousands of Canadian Dollars)

(Supplemental information with respect to the year ended December 31, 1999 is unaudited)

10 Gain on Sale of Property, Plant and Equipment

On March 9, 2001, the Corporation sold its underbalanced drilling systems and related equipment, all of which were owned by the Services Division. The gain on sale, which is included in earnings attributable to the Services Division, was:

	\$
Proceeds of sale:	
Gross	50,669
Transaction costs	1,843
	48,826
Net book value of assets sold	33,636
Gain on sale:	15,190

After deducting income taxes of \$3,038 attributable to this gain, the sale of these assets contributed \$0.36 to basic and diluted earnings per share.

11 Income Taxes

Income tax expense (recovery), which is 33.0% of income (loss) before income tax (2000 – 35.9%, 1999 – 56.7%), varies from the amounts that would be computed by applying the combined federal and Alberta provincial income tax rate of 42.1% (2000 – 44.6%, 1999 – 44.6%) due to the following factors:

	2001	2000	1999
	\$	\$	\$
Income (loss) from continuing operations before income taxes	50,791	10,415	(12,068)
Expected income tax expense (recovery)	21,383	4,645	(5,382)
Reduction of expected income tax expense (recovery) as a result of:			
Large Corporation Tax	390	300	
Non-deductible expenses	131	103	511
Reduction in taxes arising from asset sales	(3,556)	–	–
Effect of change in expected tax rates in computing future taxes	(1,538)	(2,329)	–
Tax rates applied to earnings not attributed to Alberta	(68)	1,019	(1,894)
Reduced tax rate on manufacturing operations	–	–	(80)
Income tax expense (recovery) for the year	16,742	3,738	(6,845)

The Corporation has provided for future taxes on the anticipated reversal of differences between the values at which assets and liabilities are recorded in the consolidated financial statements and their values for tax filing purposes. These differences, substantially all of which relate to the Corporation's capital assets, total \$40,005 (2000 – \$41,000, 1999 – \$31,048) on which future taxes of \$15,361 (2000 – \$13,264, 1999 – \$12,786) have been provided. The Corporation has also recognized a future tax benefit of \$426 (2000 – \$6,016, 1999 – \$6,513) on the carry forward of non-capital losses of \$1,250 (2000 – \$20,303, 1999 – \$16,749). These losses may be carried forward and applied to reduce future taxable income for seven years. The resulting net future tax liability of \$14,785 (2000 – \$7,248, 1999 – \$6,273) has been further reduced by taxes paid in foreign jurisdictions that may be applied against future Canadian tax payable in the next seven years in the amount of \$6,156 (2000 – \$2,629, 1999 – \$2,821).

No provision is made for taxes that may be payable on the repatriation of accumulated earnings in foreign subsidiaries on the basis that these earnings will continue to be used to finance the activities of these subsidiaries.

12 Discontinued Operations

- a) On May 10, 2001, The Corporation decided to dispose of its Completions Division and retained financial advisors to source offers to purchase this business as a going concern. Consequently, the operating results of this Division have been segregated in these financial statements as discontinued operations. On July 31, 2001, the Corporation concluded an agreement to sell the business of the Division for cash proceeds of \$20 million.

Information relating to the assets disposed of and the proceeds of sale is:

	\$
Proceeds of sale:	
Cash	19,500
Deferred payment amount	500
	<u>20,000</u>
Transaction costs	1,578
Net proceeds	<u>18,422</u>
Assets disposed of:	
Inventory	8,829
Prepaid expenses	243
Capital assets at net book value	5,186
	<u>14,258</u>
Gain on sale of Division before taxes	4,164
Income taxes	948
Gain on sale of Division	<u>3,216</u>

Under the terms of the sale, the Corporation retained financial assets and liabilities, including cash and accounts receivable and payable, with a book value of \$3,317. At December 31, 2001, the book value of these assets was \$1,305.

- b) On June 30, 2000, the Corporation closed down its Industrial Division activities in Nisku, Alberta. The operating results of these activities up to June 30, 2000, including the loss on closure, have been segregated in these financial statements as discontinued operations.
- c) Results of discontinued operations are summarized as follows:

	2001	2000	1999
	\$	\$	\$
Sales	10,370	26,073	27,948
Operating income (loss) before taxes	882	1,630	(4,790)
Income taxes	360	605	490
	<u>522</u>	<u>1,025</u>	<u>(5,280)</u>
Gain (loss) on sale or closure	4,164	(2,000)	-
Income taxes (recovery)	948	(800)	-
	<u>3,216</u>	<u>(1,200)</u>	<u>-</u>
Net income (loss) from discontinued operations	<u>3,738</u>	<u>(175)</u>	<u>(5,280)</u>

For the years ended December 31, 2001, 2000 and 1999

(Thousands of Canadian Dollars)

(Supplemental information with respect to the year ended December 31, 1999 is unaudited)

13 Supplementary Cash Flow Information

a) Components of changes in non-cash balances affecting operations are:

	2001	2000	1999
	\$	\$	\$
Decrease (increase) in accounts receivable	(11,159)	(28,999)	(6,984)
Decrease (increase) in inventories	(8,351)	1,031	1,887
Increase (decrease) in accounts payable and accrued liabilities	12,365	6,242	(27)
Repayment of bank operating loan	—	—	(16,227)
Increase (decrease) in income taxes payable	177	3,165	7,029
	(6,968)	(18,561)	(14,322)

b) Cash payments in respect of:

Interest	5,324	5,326	5,363
Income taxes	13,458	5,516	4,112

c) Cash receipts in respect of:

Interest	4,348	3,236	1,723
Income tax refunds	1,097	3,614	9,565

14 Commitments and Contingencies

The Corporation has non-cancelable lease commitments as follows:

	Manufacturing and operations facilities	Equipment
	\$	\$
2002	1,474	885
2003	984	181
2004	726	50
2005	328	16
2006	45	3
Thereafter	—	—

15 Segment Information

Subsequent to the sale of the Completions Division (Note 12), the Corporation has two operating divisions that provide different products and services to the Corporation's customers. The Corporation's operations are principally in the manufacturing and oil and gas service sectors. The operating divisions are:

Products – provides the design, manufacture and sale, including after-sales support, of specialized equipment to the oil and gas and mining industry;

Services – provides services, including the use of specialized equipment, primarily to oil and gas operators.

Operating divisions report their results of operations to the level of earnings before income taxes. Certain functions, including research and development activities and corporate management and administration, are provided centrally from the corporate office; the costs of these functions, together with items comprising the group's net financial expense and income taxes, are not allocated to operating divisions.

Significant financial information relating to the operating divisions is as follows:

Year ended December 31, 2001

	Revenues		Depreciation and amortization	Earnings (loss) before taxes (Note 10)	Total assets	Capital expenditures
	Internal	Third party				
Products	50,702	57,022	989	9,802	58,658	1,081
Services	1,181	150,933	10,278	62,636	146,964	25,756
	51,883	207,955	11,267	72,438	205,622	26,837
Intersegment eliminations			(479)	(2,505)	(8,372)	(5,768)
Research and development			348	(10,231)	5,993	3,125
Corporate items			1,432	(8,911)	143,177	1,522
Continuing operations			12,568	50,791	346,420	25,716
Discontinued operations			502	5,046	1,305	1,237
			13,070	55,837	347,725	26,953

Year ended December 31, 2000

	Revenues		Depreciation and amortization	Earnings (loss) before taxes	Total assets	Capital expenditures
	Internal	Third party				
Products	28,331	36,488	426	7,018	41,371	270
Services	4,887	97,500	8,299	21,941	161,903	12,458
	33,218	133,988	8,725	28,959	203,274	12,728
Intersegment eliminations			(461)	(4,540)	(6,116)	-
Research and development			204	(6,462)	-	-
Corporate items			48	(7,542)	67,960	1,287
Continuing operations			8,516	10,415	265,118	14,015
Discontinued operations			1,471	(370)	16,868	870
			9,987	10,045	281,986	14,885

Year ended December 31, 1999

	Revenues		Depreciation and amortization	Earnings (loss) before taxes	Total assets	Capital expenditures
	Internal	Third party				
Products	5,753	24,178	530	(2,728)	148,491	1,208
Services	-	62,442	7,549	640	54,740	474
	5,753	86,620	8,079	(2,088)	203,231	1,682
Intersegment eliminations			(1,728)	628	(2,495)	-
Corporate items			68	(10,608)	32,356	246
			6,419	(12,068)	233,092	1,928
Discontinued operations			3,869	(4,790)	31,767	1,257
			10,288	(16,858)	264,859	3,185

The Corporation attributes sales to geographic regions based on the location of the customer. Generally, for service activities, this will be the region in which the service activity occurs and, for equipment sales, this will be the region in which the customer's purchasing office is located. The Corporation's sales occurred and capital assets were located in the following areas of the world:

For the years ended December 31, 2001, 2000 and 1999

(Thousands of Canadian Dollars)

(Supplemental information with respect to the year ended December 31, 1999 is unaudited)

	Sales	Capital assets
<i>Year ended December 31, 2001</i>	\$	\$
Canada	46,337	27,076
United States	86,680	35,393
Mexico	17,951	4,401
South America	25,524	14,430
South East Asia	16,630	9,062
Europe, Africa and Middle East	14,833	4,664
<i>Year ended December 31, 2000</i>	\$	\$
Canada	45,739	45,228
United States	43,720	40,125
Mexico	16,262	5,453
South America	15,261	15,497
South East Asia	3,544	6,163
Europe, Africa and Middle East	9,462	13,461
<i>Year ended December 31, 1999</i>	\$	\$
Canada	24,573	68,069
United States	26,864	28,968
Mexico	19,011	8,446
South America	5,250	13,396
South East Asia	4,478	4,306
Europe, Africa and Middle East	6,444	6,153

In the years ended December 31, 2001 and 2000 the Corporation had no customers that represented more than 10% of total revenue. For the year ended December 31, 1999, the Corporation earned drilling services revenues from one customer of \$19.0 million, representing 22% of total revenues for the year.

16 Reconciliation to United States Generally Accepted Accounting Principles

The consolidated financial statements of the Corporation are prepared using accounting principles that are generally accepted in Canada. These principles differ in some material respects from those that are generally accepted in the United States. For the years ended December 31, 2001, 2000 and 1999, the principal differences that result in material measurement changes in the consolidated financial statements of the Corporation are:

a) Accounting for Research and Development Costs

Costs of product development that are capitalized as technology and amortized under Canadian GAAP are required to be expensed in the period incurred under U.S. GAAP.

b) Foreign Exchange Gains and Losses

Under Canadian GAAP, foreign exchange gains and losses arising on the conversion of non-current monetary liabilities with fixed maturity dates are deferred and amortized over the remaining term to maturity of the debt. U.S. GAAP requires the full amount of such gains and losses to be accounted for in the determination of net earnings or loss for the period in which they arise.

c) Change in Accounting Policy

In the period ended December 31, 1999, the Corporation changed the method by which it depreciates its major rental drilling equipment. Canadian GAAP requires the restatement of prior periods' financial statements for the retroactive effect of a change in accounting policy, whereas U.S. GAAP requires the cumulative retroactive effect to be reflected in the determination of net income for period in which the change is made.

d) Valuation of Options and Warrants

U.S. GAAP requires that options and warrants issued for other than compensation purposes be accounted for at their fair value at the date granted. In December 1995, the Corporation granted 980,000 options and warrants in conjunction with the formation of the Casing Drilling Joint Venture. These options and warrants had a fair value at their grant date of approximately \$3,675, which amount would have been added to the Corporation's investment in and subsequent acquisition of the Casing Drilling Joint Venture and to shareholders' equity as contributed surplus. Subsequent to the acquisition of the Casing Drilling Joint Venture, this cost would have been attributed to the Corporation's capitalized technology and development costs, which are expensed under U.S. GAAP (Note 16 a).

e) Reduction of Capital

In November 1993, the Corporation reduced its share capital by \$13,842 to eliminate its accumulated deficit. U.S. GAAP requires that the financial statements continue to reflect this accumulated deficit by restating share capital on the basis that the reduction had not occurred.

f) Future Taxes

Both Canadian and U.S. GAAP require future taxes to be computed using tax rates for future periods that are expected to apply. However, in determining the rates that are expected to apply, Canadian GAAP requires the use of rates that are substantively enacted, whereas U.S. GAAP permits only the use of tax rates that are enacted, at the date of preparation of the financial statements.

g) Repricing Stock Options

U.S. GAAP requires, as of July 1, 2000, recognition as compensation expense of increases in the market value of repriced stock options that were initially defined as non-compensatory options. Under Canadian GAAP, no compensation expense is required to be recognized for option repricings occurring prior to January 1, 2002.

The effect of these differences on the reported results and financial position of the Corporation is as follows:

	2001 \$	2000 \$	1999 \$
Consolidated Statements of Earnings			
Net earnings (loss) – Canadian GAAP	37,787	6,502	(10,503)
Adjusted for:			
Research and development costs	648	254	2,060
Deferred foreign exchange losses (gains)	(3,713)	(2,737)	2,871
Compensation expense for repriced options	–	(315)	–
Cumulative effect of accounting policy change	–	–	3,823
	(3,065)	(2,798)	8,754
Tax effect	1,011	1,119	(3,502)
	(2,054)	(1,678)	5,252
Use of expected future tax rates	2,386	(2,386)	–
	332	(4,065)	5,252
Net earnings (loss) – U.S. GAAP	38,119	2,437	(5,251)
Net earnings (loss) per common share (basic)			
– Canadian GAAP	\$ 1.12	\$ 0.20	\$ (0.33)
– U.S. GAAP	\$ 1.13	\$ 0.08	\$ (0.16)
Net earnings (loss) per common share (diluted)			
– Canadian GAAP	\$ 1.11	\$ 0.20	\$ (0.33)
– U.S. GAAP	\$ 1.11	\$ 0.07	\$ (0.16)

For the years ended December 31, 2001, 2000 and 1999

(Thousands of Canadian Dollars)

(Supplemental information with respect to the year ended December 31, 1999 is unaudited)

	2001 \$	2000 \$	1999 \$
Consolidated Statements of Retained Earnings			
Retained earnings, beginning of year – Canadian GAAP	54,449	47,947	58,450
Adjusted for cumulative effect of prior years’ Canadian/U.S. GAAP differences	(26,581)	(22,516)	(27,768)
	27,868	25,431	30,682
Net earnings (loss) for the periods – U.S. GAAP	38,119	2,437	(5,251)
Retained earnings, end of period – U.S. GAAP	65,987	27,868	25,431
Consolidated Balance Sheets			
Intangible and other assets – Canadian GAAP	10,824	17,840	22,891
Adjusted for: Research and development costs	(10,491)	(11,252)	(11,506)
	333	6,588	11,385
Long term debt – Canadian GAAP	70,222	69,474	69,523
Adjusted for: Deferred foreign exchange losses (gains) – U.S. GAAP	3,589	(134)	(2,871)
	73,811	69,340	66,652
Future income taxes – Canadian GAAP	8,629	4,619	3,452
Adjusted for: Tax effect of Canadian/US GAAP differences Use of expected future tax rates – U.S. GAAP	(5,766)	(4,755)	(3,636)
	–	2,386	–
	2,863	2,250	(184)
Share capital – Canadian GAAP	146,983	134,004	127,678
Adjusted for: Reduction of capital – U.S. GAAP	13,842	13,842	13,842
	160,825	147,846	141,520
Equity relating to fair value of options – Canadian GAAP	–	–	–
Adjusted for: Valuation of options and warrants Compensation expense for repriced options – U.S. GAAP	3,660	3,675	3,675
	315	315	–
	3,975	3,990	3,675

17 Recent Accounting Pronouncements

Recent accounting pronouncements of significance to the Corporation and management's assessment of their expected impact are:

a) CICA Accounting Standard 1650 – Foreign Currency Translation

A new Canadian accounting standard was issued November 2001 applicable to years beginning on or after January 1, 2002. This standard eliminates the deferral and amortization of foreign exchange gains or losses arising from the translation of long-term debt and other similar monetary items into Canadian dollars. The Corporation will adopt this new standard, with retroactive application, in 2002. At December 31, 2001, the Corporation had \$3,589 of deferred foreign exchange for Canadian purposes.

b) CICA Accounting Standard 3870 – Stock-based Compensation and Other Stock-based Payments

A new Canadian accounting standard was issued January 2002 applicable to years beginning on or after January 1, 2002. This standard requires that, effective January 1, 2002, the Corporation will be required to provide disclosure relating to the fair value of options granted under its employee stock option plan and to disclose pro forma net earnings and earnings per share as though a compensation expense were computed and accounted for using a fair value method in respect of options granted after January 1, 2002. Since this pro forma disclosure is only required in respect of options granted after January 1, 2002, management is unable to estimate what the effect of this change may be.

c) CICA Accounting Standard 3062 – Goodwill and Other Intangible Assets

A new Canadian accounting standard was issued January 2002 applicable to years beginning on or after January 1, 2002. This standard will require an assessment of the current fair value of goodwill and a provision for any deficiency between the carrying amount and the fair value as an impairment loss. Management anticipates no impact of the application of this policy change on Tesco's financial statements, as the Corporation carried no goodwill on its balance sheet at December 31, 2001.

d) CICA Accounting Guideline AcG 13 – Hedging Relationships

On November 2, 2001, the Canadian Institute of Chartered Accountants issued AcG 13, which establishes certain conditions for when hedge accounting may be applied, but does not provide any guidance on how hedge accounting is applied nor does it deal with hedge accounting techniques. AcG 13 is effective for fiscal years beginning on or after June 1, 2002. Management does not expect this guideline to have a material effect on the Corporation's financial reporting.

e) Statement of Financial Accounting Standards No 144 ("FAS 144") – Accounting for the Impairment or Disposal of Long-Lived Assets

FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. However, FAS 144 retains the fundamental provisions of FAS 121. Management anticipates that the adoption of FAS 144 will not have a material effect on the Corporation's financial position or results of its operations.

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Mac Van Wieringen
Chairman
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1. Audit Committee
2. Compensation Committee
3. Corporate Governance Committee

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Executive Vice President &
Chief Operating Officer

Martin Hall
Senior Vice President Finance;
Chief Financial Officer & Secretary

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Senior Vice President
Engineering & Design

K. Evert Beierbach
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New Product & Process Development

Kenneth M. Bagan
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& General Counsel

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& Assistant Secretary

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FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that may constitute "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. Such statements are included throughout this Annual Report, including, among other places, under the "Review of Operations" and "Management's Discussion and Analysis" sections. These statements include, among others, statements regarding expectations of future revenues, activities, capital expenditures and earnings and technical results, and other expectations, beliefs, plans, objectives, assumptions or statements about future events or performance. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated. These risks include, but are not limited to: the background risks of the drilling services industry (e.g. operational risks; potential delays or changes in plans with respect to customers' exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to levels of rental activities; uncertainty of estimates and projections of costs and expenses; risks in conducting foreign operations (e.g. political and fiscal instability) and exchange rate fluctuations); uncertainty and risks in technical results and performance of technology; and other uncertainties. Additional information on these and other factors which could affect the Corporation's operations or financial results are included in the Annual Report under the headings "Management's Discussion and Analysis – Liquidity and Capital Resources", "Outlook" and "Risk Factors" and elsewhere, and in the Corporation's other reports on file with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (SEC). Forward-looking statements are based on the estimates and opinions of the Corporation's management at the time the statements are made. The Corporation assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.



ИННОВАЦІЇ В ТЕХНОЛОГІЇ БУРАВЛЕННЯ ΝΕΩΤΕΡΙΣΜΟΙ ΣΤΗΝ ΤΕΧΝΟΛΟΓΙΑ ΤΗΣ ΓΕΩΤΡΗΣΕΩΣ inovácia v technológii vrtania
NHỮNG ĐỔI MỚI TRONG KỸ THUẬT KHOAN DẦU uusinta tietoa öljyntoraus tekniikasta vernieuwingen in boortechnologie
इलिन्या तकनालोजी मे नई खेज **innovations in drilling technology** ابتكارات جديدة في حقل تكنولوجيا حفر الآبار
újítások és fúrastechnológia inovatii in tehnologia forarilor 革新的なドリル技術 nye ideeër for boreteknologie
innowacje technologii wiertnictwa naftowego innovazioni tecnologici della trivellazione di pozzi di petrolio

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